

ORIGINAL



MEMORANDUM

TO: Docket Control

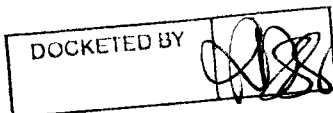
FROM: Dawn A. Wilson *gaw*
Paralegal, Legal Division

DATE: October 22, 2010

RE: NOTICE OF SUBMISSION OF PROPOSED GAS ENERGY EFFICIENCY
RULEMAKING WITH SECRETARY OF STATE
(DOCKET NO. RG-00000B-09-0428)

Attached are the Agency Receipts acknowledging the August 27, 2010 filing with the Secretary of State of the Commission's 1) Notice of Rulemaking Docket Opening, and 2) Notice of Proposed Rulemaking. Also attached are copies of the Administrative Register's publication of the two notices on September 17, 2010.

Arizona Corporation Commission
DOCKETED
OCT 22 2010



AZ CORP COMMISSION
DOCKET CONTROL

2010 OCT 22 P 12:59

RECEIVED

SECRETARY OF STATE
FILED

AGENCY RECEIPT

2010 AUG 27 AM 9:26

Notice of Proposed Rulemaking

1. **Agency name:** Arizona Corporation Commission
2. **The Subchapters, if applicable; the Articles; the Parts, if applicable; and the Sections involved in the rulemaking, listed in alphabetical and numerical order:**

<u>Subchapters, Articles, Parts, and Sections</u> <u>(in alphabetical and numerical order)</u>	<u>Action</u>
Article 25. Gas Utility Energy Utility Energy Efficiency Standards	New
R14-2-2501	New
R14-2-2502	New
R14-2-2503	New
R14-2-2504	New
R14-2-2505	New
R14-2-2506	New
R14-2-2507	New
R14-2-2508	New
R14-2-2509	New
R14-2-2510	New
R14-2-2511	New
R14-2-2512	New
R14-2-2513	New
R14-2-2514	New
R14-2-2515	New
R14-2-2516	New
R14-2-2517	New
R14-2-2518	New
R14-2-2519	New
R14-2-2520	New

SECRETARY OF STATE
FILED

AGENCY RECEIPT

2010 AUG 27 AM 9:26

Notice of Rulemaking Docket Opening

1. Agency name: Arizona Corporation Commission
2. The Subchapters, if applicable; the Articles; the Parts, if applicable; and the Sections involved in the rulemaking, listed in alphabetical and numerical order:

<u>Subchapters, Articles, Parts, and Sections</u> (in alphabetical and numerical order)	<u>Action</u>
--	---------------

Article 25. Gas Utility Energy Utility Energy Efficiency Standards	New
R14-2-2501	New
R14-2-2502	New
R14-2-2503	New
R14-2-2504	New
R14-2-2505	New
R14-2-2506	New
R14-2-2507	New
R14-2-2508	New
R14-2-2509	New
R14-2-2510	New
R14-2-2511	New
R14-2-2512	New
R14-2-2513	New
R14-2-2514	New
R14-2-2515	New
R14-2-2516	New
R14-2-2517	New
R14-2-2518	New
R14-2-2519	New
R14-2-2520	New

NOTICES OF PROPOSED RULEMAKING

Unless exempted by A.R.S. § 41-1005, each agency shall begin the rulemaking process by first submitting to the Secretary of State's Office a Notice of Rulemaking Docket Opening followed by a Notice of Proposed Rulemaking that contains the preamble and the full text of the rules. The Secretary of State's Office publishes each Notice in the next available issue of the *Register* according to the schedule of deadlines for *Register* publication. Under the Administrative Procedure Act (A.R.S. § 41-1001 et seq.), an agency must allow at least 30 days to elapse after the publication of the Notice of Proposed Rulemaking in the *Register* before beginning any proceedings for making, amending, or repealing any rule. (A.R.S. §§ 41-1013 and 41-1022)

NOTICE OF PROPOSED RULEMAKING

TITLE 14. PUBLIC SERVICE CORPORATIONS; CORPORATIONS AND ASSOCIATIONS; SECURITIES REGULATION

CHAPTER 2. CORPORATION COMMISSION FIXED UTILITIES

Editor's Note: The following Notice of Proposed Rulemaking is exempt from Laws 2010, Ch. 287, § 18. (See the text of § 18 on page 1867.)

[R10-132]

PREAMBLE

1. Sections Affected

Article 25
R14-2-2501
R14-2-2502
R14-2-2503
R14-2-2504
R14-2-2505
R14-2-2506
R14-2-2507
R14-2-2508
R14-2-2509
R14-2-2510
R14-2-2511
R14-2-2512
R14-2-2513
R14-2-2514
R14-2-2515
R14-2-2516
R14-2-2517
R14-2-2518
R14-2-2519
R14-2-2520

Rulemaking Action

New Article
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section

2. The specific authority for the rulemaking, including both the authorizing statute (general) and the statutes the rules are implementing (specific):

Authorizing statute: Arizona Constitution Article XV § 3; A.R.S. §§ 40-202, 40-203, 40-321, 40-281, 40-282, 40-322

Implementing statute: Arizona Constitution Article XV § 3; A.R.S. §§ 40-202, 40-203, 40-281, 40-282, 40-321, 40-322

3. A list of all previous notices appearing in the Register addressing the proposed rule:

Notice of Rulemaking Docket Opening: 16 A.A.R. 1847, September 17, 2010 (*in this issue*)

4. The name and address of agency personnel with whom persons may communicate regarding the rulemaking:

Name: Maureen Scott, Esq.
Attorney, Legal Division, Arizona Corporation Commission

Address: 1200 W. Washington St.
Phoenix, AZ 85007

Arizona Administrative Register / Secretary of State

Notices of Proposed Rulemaking

Telephone: (602) 542-3402

Fax: (602) 542-4870

E-mail: mscott@azcc.gov

or

Name: Barbara Keene
Public Utilities Analyst Manager, Arizona Corporation Commission

Address: 1200 W. Washington St.
Phoenix, AZ 85007

Telephone: (602) 542-0853

Fax: (602) 364-2270

E-mail: bkeene@azcc.gov

5. An explanation of the rule, including the agency's reasons for initiating the rule:

The purpose of Gas Energy Efficiency Standards is for affected utilities to achieve energy savings through cost-effective energy efficiency programs in order to ensure reliable gas service at reasonable rates and costs. Energy efficiency means the production or delivery of an equivalent level and quality of end-use gas service using less energy, or the conservation of energy by end-use customers.

Cost-effective energy efficiency is less expensive than burning gas and produces less impact on the environment.

By December 31, 2020, the proposed rule would require affected utilities to achieve cumulative annual energy savings, expressed as therms or therm equivalents, equal to at least 6% of the affected utility's retail gas energy sales for calendar year 2019.

6. A reference to any study relevant to the rules that the agency reviewed and either proposes to rely on or not to rely on in its evaluation of or justification for the rules, where the public may obtain or review each study, all data underlying each study, and any analysis of each study and other supporting material:

None

7. A showing of good cause why the rule is necessary to promote a statewide interest if the rule will diminish a previous grant of authority of a political subdivision of this state:

Not applicable

8. The preliminary summary of the economic, small business, and consumer impact:

The public at large will benefit from increased energy efficiency because energy efficiency reduces the amount of gas needed by customers and reduces the need for additional gas infrastructure. This results in fewer adverse impacts on air, land, and water than transporting and burning gas.

Consumers of affected utilities who install energy efficiency measures may incur an initial cost for the measure, but they are then able to reduce the amount of gas that they buy from the affected utility. Consumers include small businesses and other customer classes.

Manufacturers, distributors, and installers of energy efficiency measures benefit from increased energy efficiency because more of their products or services will be purchased. Employees of the manufacturers, distributors, and installers will benefit through increased job opportunities.

Affected utilities may incur additional costs of complying with program development, program implementation, and reporting activities. However, affected utilities will benefit from reduced costs for procuring, transporting and distributing gas.

Probable costs to the Commission of the proposed rulemaking would include costs associated with reviewing filings, and participating in meetings and hearings.

2. The name and address of agency personnel with whom persons may communicate regarding the accuracy of the economic, small business, and consumer impact statement:

Name: Barbara Keene
Public Utilities Analyst Manager, Arizona Corporation Commission

Address: 1200 W. Washington St.
Phoenix, AZ 85007

Telephone: (602) 542-0853

Fax: (602) 364-2270

E-mail: bkeene@azcc.gov

NOTICES OF PROPOSED RULEMAKING

Unless exempted by A.R.S. § 41-1005, each agency shall begin the rulemaking process by first submitting to the Secretary of State's Office a Notice of Rulemaking Docket Opening followed by a Notice of Proposed Rulemaking that contains the preamble and the full text of the rules. The Secretary of State's Office publishes each Notice in the next available issue of the *Register* according to the schedule of deadlines for *Register* publication. Under the Administrative Procedure Act (A.R.S. § 41-1001 et seq.), an agency must allow at least 30 days to elapse after the publication of the Notice of Proposed Rulemaking in the *Register* before beginning any proceedings for making, amending, or repealing any rule. (A.R.S. §§ 41-1013 and 41-1022)

NOTICE OF PROPOSED RULEMAKING

TITLE 14. PUBLIC SERVICE CORPORATIONS; CORPORATIONS AND ASSOCIATIONS; SECURITIES REGULATION

CHAPTER 2. CORPORATION COMMISSION FIXED UTILITIES

Editor's Note: The following Notice of Proposed Rulemaking is exempt from Laws 2010, Ch. 287, § 18. (See the text of § 18 on page 1867.)

[R10-132]

PREAMBLE

1. Sections Affected

Article 25
R14-2-2501
R14-2-2502
R14-2-2503
R14-2-2504
R14-2-2505
R14-2-2506
R14-2-2507
R14-2-2508
R14-2-2509
R14-2-2510
R14-2-2511
R14-2-2512
R14-2-2513
R14-2-2514
R14-2-2515
R14-2-2516
R14-2-2517
R14-2-2518
R14-2-2519
R14-2-2520

Rulemaking Action

New Article
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section
New Section

2. The specific authority for the rulemaking, including both the authorizing statute (general) and the statutes the rules are implementing (specific):

Authorizing statute: Arizona Constitution Article XV § 3; A.R.S. §§ 40-202, 40-203, 40-321, 40-281, 40-282, 40-322

Implementing statute: Arizona Constitution Article XV § 3; A.R.S. §§ 40-202, 40-203, 40-281, 40-282, 40-321, 40-322

3. A list of all previous notices appearing in the *Register* addressing the proposed rule:

Notice of Rulemaking Docket Opening: 16 A.A.R. 1847, September 17, 2010 (*in this issue*)

4. The name and address of agency personnel with whom persons may communicate regarding the rulemaking:

Name: Maureen Scott, Esq.
Attorney, Legal Division, Arizona Corporation Commission

Address: 1200 W. Washington St.
Phoenix, AZ 85007

Arizona Administrative Register / Secretary of State
Notices of Proposed Rulemaking

Telephone: (602) 542-3402
Fax: (602) 542-4870
E-mail: mscott@azcc.gov
or
Name: Barbara Keene
Public Utilities Analyst Manager, Arizona Corporation Commission
Address: 1200 W. Washington St.
Phoenix, AZ 85007
Telephone: (602) 542-0853
Fax: (602) 364-2270
E-mail: bkeene@azcc.gov

5. An explanation of the rule, including the agency's reasons for initiating the rule:

The purpose of Gas Energy Efficiency Standards is for affected utilities to achieve energy savings through cost-effective energy efficiency programs in order to ensure reliable gas service at reasonable rates and costs. Energy efficiency means the production or delivery of an equivalent level and quality of end-use gas service using less energy, or the conservation of energy by end-use customers.

Cost-effective energy efficiency is less expensive than burning gas and produces less impact on the environment.

By December 31, 2020, the proposed rule would require affected utilities to achieve cumulative annual energy savings, expressed as therms or therm equivalents, equal to at least 6% of the affected utility's retail gas energy sales for calendar year 2019.

6. A reference to any study relevant to the rules that the agency reviewed and either proposes to rely on or not to rely on in its evaluation of or justification for the rules, where the public may obtain or review each study, all data underlying each study, and any analysis of each study and other supporting material:

None

7. A showing of good cause why the rule is necessary to promote a statewide interest if the rule will diminish a previous grant of authority of a political subdivision of this state:

Not applicable

8. The preliminary summary of the economic, small business, and consumer impact:

The public at large will benefit from increased energy efficiency because energy efficiency reduces the amount of gas needed by customers and reduces the need for additional gas infrastructure. This results in fewer adverse impacts on air, land, and water than transporting and burning gas.

Consumers of affected utilities who install energy efficiency measures may incur an initial cost for the measure, but they are then able to reduce the amount of gas that they buy from the affected utility. Consumers include small businesses and other customer classes.

Manufacturers, distributors, and installers of energy efficiency measures benefit from increased energy efficiency because more of their products or services will be purchased. Employees of the manufacturers, distributors, and installers will benefit through increased job opportunities.

Affected utilities may incur additional costs of complying with program development, program implementation, and reporting activities. However, affected utilities will benefit from reduced costs for procuring, transporting and distributing gas.

Probable costs to the Commission of the proposed rulemaking would include costs associated with reviewing filings, and participating in meetings and hearings.

9. The name and address of agency personnel with whom persons may communicate regarding the accuracy of the economic, small business, and consumer impact statement:

Name: Barbara Keene
Public Utilities Analyst Manager, Arizona Corporation Commission
Address: 1200 W. Washington St.
Phoenix, AZ 85007
Telephone: (602) 542-0853
Fax: (602) 364-2270
E-mail: bkeene@azcc.gov

Arizona Administrative Register / Secretary of State
Notices of Proposed Rulemaking

10. The time, place, and nature of the proceedings for the making, amendment, or repeal of the rule, or if no proceeding is scheduled, where, when, and how persons may request an oral proceeding on the proposed rule:

Public comment will be held on October 28, 2010, beginning at 10:00 a.m. or as soon as practicable thereafter, in Hearing Room 1 at the Commission's Phoenix offices of the Arizona Corporation Commission located at 1200 W. Washington St., Phoenix, AZ 85007. Hearing requests initial written comments be received on or before October 18, 2010. Comments should be submitted to Docket Control at the above address. Please reference docket number RG-00000B-09-0428 on all documents. Oral comments may be provided at the proceeding to be held on October 28, 2010.

11. Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of rules:

None

12. Incorporations by reference and their location in the rules:

None

13. The full text of the rules follows:

**TITLE 14. PUBLIC SERVICE CORPORATIONS; CORPORATIONS AND ASSOCIATIONS;
SECURITIES REGULATION**

**CHAPTER 2. CORPORATION COMMISSION
FIXED UTILITIES**

ARTICLE 25. GAS UTILITY ENERGY EFFICIENCY STANDARDS

Section

<u>R14-2-2501.</u>	<u>Definitions</u>
<u>R14-2-2502.</u>	<u>Applicability</u>
<u>R14-2-2503.</u>	<u>Goals and Objectives</u>
<u>R14-2-2504.</u>	<u>Energy Efficiency Standards</u>
<u>Table 1.</u>	<u>Energy Efficiency Standard</u>
<u>Table 2.</u>	<u>Illustrative Example of Calculating Required Energy Savings</u>
<u>Table 3.</u>	<u>Credit for Pre-rules Energy Savings</u>
<u>Table 4.</u>	<u>Illustrative Example of How the Energy Standard Could be Met in 2020</u>
<u>R14-2-2505.</u>	<u>Implementation Plans</u>
<u>R14-2-2506.</u>	<u>DSM Tariffs</u>
<u>R14-2-2507.</u>	<u>Commission Review and Approval of DSM and RET Programs</u>
<u>R14-2-2508.</u>	<u>Parity and Equity</u>
<u>R14-2-2509.</u>	<u>Reporting Requirements</u>
<u>R14-2-2510.</u>	<u>Cost Recovery</u>
<u>R14-2-2511.</u>	<u>Revenue Decoupling</u>
<u>R14-2-2512.</u>	<u>Cost-effectiveness</u>
<u>R14-2-2513.</u>	<u>Baseline Estimation</u>
<u>R14-2-2514.</u>	<u>Fuel Neutrality</u>
<u>R14-2-2515.</u>	<u>Monitoring, Evaluation, and Research</u>
<u>R14-2-2516.</u>	<u>Program Administration and Implementation</u>
<u>R14-2-2517.</u>	<u>Leveraging and Cooperation</u>
<u>R14-2-2518.</u>	<u>Compliance by Gas Distribution Cooperatives</u>
<u>R14-2-2519.</u>	<u>Compliance by Propane Companies</u>
<u>R14-2-2520.</u>	<u>Waiver from the Provisions of this Article</u>

ARTICLE 25. GAS UTILITY ENERGY EFFICIENCY STANDARDS

R14-2-2501. Definitions

In this Article, unless otherwise specified:

1. "Adjustment mechanism" means a Commission-approved provision in an affected utility's rate schedule allowing the affected utility to increase and decrease a certain rate or rates, in an established manner, when increases and decreases in specific costs are incurred by the affected utility.
2. "Affected utility" means a public service corporation that provides gas utility service to retail customers in Arizona.
3. "Baseline" means the level of gas demand, gas consumption, and associated expenses estimated to occur in the

Arizona Administrative Register / Secretary of State
Notices of Proposed Rulemaking

- absence of a specific DSM program, determined as provided in R14-2-2513.
4. "CHP" means combined heat and power, which is using a primary energy source to simultaneously produce electrical energy and useful process heat.
 5. "Commission" means the Arizona Corporation Commission.
 6. "Cost-effective" means that total incremental benefits from a DSM measure or DSM program exceed total incremental costs over the life of the DSM measure, as determined under R14-2-2512.
 7. "Customer" means the person or entity in whose name service is rendered to a single contiguous field, location, or facility, regardless of the number of meters at the field, location, or facility.
 8. "Delivery system" means the infrastructure through which an affected utility transmits and then distributes gas energy to its customers.
 9. "DSM" means demand-side management, the implementation and maintenance of one or more DSM programs.
 10. "DSM measure" means any material, device, technology, educational program, practice, or facility alteration designed to result in increased energy efficiency and includes CHP used to displace space heating, water heating, or another load.
 11. "DSM program" means one or more DSM measures provided as part of a single offering to customers.
 12. "DSM tariff" means a Commission-approved schedule of rates designed to recover an affected utility's reasonable and prudent costs of complying with this Article.
 13. "Energy efficiency" means the production or delivery of an equivalent level and quality of end-use gas service using less energy, or the conservation of energy by end-use customers.
 14. "Energy efficiency standard" means the reduction in retail energy sales, in percentage of therms or therm equivalents, required to be achieved through an affected utility's approved DSM programs as prescribed in R14-2-2504.
 15. "Energy savings" means the reduction in a customer's energy consumption, expressed in therms or therm equivalents.
 16. "Energy service company" means a company that provides a broad range of services related to energy efficiency, including energy audits, the design and implementation of energy efficiency projects, and the installation and maintenance of energy efficiency measures.
 17. "Environmental benefits" means avoidance of costs for compliance, or reduction in environmental impacts, for things such as, but not limited to:
 - a. Water use and water contamination;
 - b. Monitoring storage and disposal of solid waste, such as coal ash (bottom and fly);
 - c. Health effects from burning fossil fuels; and
 - d. Emissions from transportation and production of fuels.
 18. "Fuel-neutral" means without promoting or otherwise expressing bias regarding a customer's choice of one fuel over another.
 19. "Gas" means either natural gas or propane.
 20. "Gas utility" means a public service corporation providing natural gas service or propane service to the public.
 21. "Incremental benefits" means amounts saved through avoiding costs for gas purchases, delivery system, and other cost items necessary to provide gas utility service, along with other improvements in societal welfare, such as through avoided environmental impacts, including, but not limited to, water consumption savings, water contamination reduction, air emission reduction, reduction in coal ash, and reduction of nuclear waste.
 22. "Incremental costs" means the additional expenses of DSM measures, relative to baseline.
 23. "Independent program administrator" means an impartial third party employed to provide objective oversight of DSM and RET programs.
 24. "kWh" means kilowatt-hour.
 25. "Leveraging" means combining resources to more effectively achieve an energy efficiency goal, or to achieve greater energy efficiency savings, than would be achieved without combining resources.
 26. "Low-income customer" means a customer with a below average level of household income, as defined in an affected utility's Commission-approved DSM program description.
 27. "Market transformation" means strategic efforts to induce lasting structural or behavioral changes in the market that result in increased energy efficiency.
 28. "Net benefits" means the incremental benefits resulting from DSM minus the incremental costs of DSM.
 29. "Non-market benefits" means improvements in societal welfare that are not bought or sold.
 30. "Program costs" means the expenses incurred by an affected utility as a result of developing, marketing, implementing, administering, and evaluating Commission-approved DSM programs.
 31. "RET" means a renewable energy resource technology application utilizing an energy resource that is replaced rapidly by a natural, ongoing process and that displaces conventional energy resources otherwise used to provide energy to an affected utility's Arizona customers.
 32. "RET program" means one or more RETs provided as part of a single offering to customers.
 33. "Revenue decoupling" means a mechanism that reduces or eliminates the connection between sales volume and the recovery of an affected utility's Commission-approved cost of service.

Notices of Proposed Rulemaking

34. "Self-direction" means an option made available to qualifying customers of sufficient size, in which the amount of money paid by each qualifying customer toward DSM costs is tracked for the customer and made available for use by the customer for approved DSM investments upon application by the customer.
35. "Societal Test" means a cost-effectiveness test of the net benefits of DSM programs that starts with the Total Resource Cost Test, but includes non-market benefits and costs to society.
36. "Staff" means individuals working for the Commission's Utilities Division, whether as employees or through contract.
37. "Therm" means a unit of heat energy equal to 100,000 British Thermal Units.
38. "Thermal envelope" means the collection of building surfaces, such as walls, windows, doors, floors, ceilings, and roofs, that separate interior conditioned (heated or cooled) spaces from the exterior environment.
39. "Therm equivalent" means a unit of energy, such as kWh, converted and stated in terms of therms.
40. "Total Resource Cost Test" means a cost-effectiveness test that measures the net benefits of a DSM program as a resource option, including incremental measure costs, incremental affected utility costs, and carrying costs as a component of avoided capacity cost, but excluding incentives paid by affected utilities and non-market benefits to society.

R14-2-2502. Applicability

This Article applies to each affected utility classified as Class A according to R14-2-103(A)(3)(q).

R14-2-2503. Goals and Objectives

- A. An affected utility shall design each DSM program to be cost-effective.
- B. An affected utility shall consider the following when planning and implementing a DSM or RET program:
 1. Whether the DSM program will achieve cost-effective energy savings;
 2. Whether the DSM or RET program will advance market transformation and achieve sustainable savings, reducing the need for future market interventions; and
 3. Whether the affected utility can ensure a level of funding adequate to sustain the DSM or RET program and allow the program to achieve its targeted goals.
- C. An affected utility shall:
 1. Offer DSM programs that will provide an opportunity for all affected utility customer segments to participate, and
 2. Allocate a portion of DSM resources specifically to low-income customers.

R14-2-2504. Energy Efficiency Standards

- A. Except as provided in R14-2-2518 and R14-2-2519, in order to ensure reliable gas service at reasonable ratepayer rates and costs, by December 31, 2020, an affected utility shall, through DSM and RET programs, achieve cumulative annual energy savings, expressed as therms or therm equivalents, equal to at least 6% of the affected utility's retail gas energy sales for calendar year 2019.
- B. An affected utility shall, by the end of each calendar year, meet at least the cumulative annual energy efficiency standard listed in Table 1 for that calendar year. An illustrative example of how the required energy savings would be calculated is shown in Table 2. An illustrative example of how the standard can be met in 2020 is shown in Table 4.

Table 1. Energy Efficiency Standard

<u>CALENDAR YEAR</u>	<u>ENERGY EFFICIENCY STANDARD</u> (Cumulative Annual Energy Savings by the End of Each Calendar Year as a Percentage of the Retail Energy Sales in the Prior Calendar Year)
<u>2011</u>	<u>0.50%</u>
<u>2012</u>	<u>1.20%</u>
<u>2013</u>	<u>1.80%</u>
<u>2014</u>	<u>2.40%</u>
<u>2015</u>	<u>3.00%</u>
<u>2016</u>	<u>3.60%</u>
<u>2017</u>	<u>4.20%</u>
<u>2018</u>	<u>4.80%</u>
<u>2019</u>	<u>5.40%</u>
<u>2020</u>	<u>6.00%</u>

Arizona Administrative Register / Secretary of State
Notices of Proposed Rulemaking

Table 2. Illustrative Example of Calculating Required Energy Savings

<u>CALENDAR YEAR</u>	<u>A</u> <u>RETAIL SALES</u> <u>(therms)</u>	<u>B</u> <u>ENERGY EFFICIENCY</u> <u>STANDARD</u>	<u>C</u> <u>REQUIRED CUMULATIVE</u> <u>ENERGY SAVINGS</u> <u>(therms or therm equivalents)</u> <u>(B of current year</u> <u>× A of prior year)</u>
<u>2010</u>	100,000,000		0
<u>2011</u>	97,500,000	0.50%	500,000
<u>2012</u>	95,065,000	1.20%	975,000
<u>2013</u>	92,693,225	1.80%	1,425,975
<u>2014</u>	90,382,952	2.40%	1,853,865
<u>2015</u>	88,132,506	3.00%	2,259,574
<u>2016</u>	85,940,263	3.60%	2,643,975
<u>2017</u>	83,589,793	4.20%	3,222,760
<u>2018</u>	81,314,762	4.80%	3,761,541
<u>2019</u>	79,105,751	5.40%	4,269,025
<u>2020</u>	76,960,936	6.00%	4,746,345

- C.** An affected utility may count energy savings resulting from DSM energy efficiency and RET programs to meet the energy efficiency standard. At least 4.5 percentage points of the 6% energy efficiency standard in 2020, and at least 75% of the energy efficiency standard for the other years, set forth in subsection (B) shall be achieved through the energy efficiency programs.
- D.** An affected utility's energy savings resulting from DSM energy efficiency programs implemented before the effective date of this Article, but after 2004, may be credited toward meeting the energy efficiency standard set forth in subsection (B). The total energy savings credit for these pre-rules DSM programs shall not exceed 1% of the affected utility's retail energy sales in calendar year 2005. A portion of the total energy savings credit for these pre-rules programs may be applied each year, from 2016 through 2020, as listed in Table 3, Column A.

Table 3. Credit for Pre-rules Energy Savings

<u>CALENDAR YEAR</u>	<u>A</u> <u>CREDIT FOR THE PRE-RULES</u> <u>ENERGY SAVINGS APPLIED IN EACH</u> <u>YEAR</u> <u>(Percentage of the Total Eligible Pre-rules</u> <u>Cumulative Annual Energy Savings That</u> <u>Shall Be Applied in the Year)</u>	<u>B</u> <u>CUMULATIVE APPLICATION OF THE</u> <u>CREDIT FOR THE PRE-RULES ENERGY</u> <u>SAVINGS IN 2016-2020</u> <u>(Percentage of the Total Eligible</u> <u>Pre-rules Cumulative Annual Energy Savings</u> <u>That Are Credited by the End of Each Year)</u>
<u>2016</u>	7.5%	7.5%
<u>2017</u>	15.0%	22.5%
<u>2018</u>	20.0%	42.5%
<u>2019</u>	25.0%	67.5%
<u>2020</u>	32.5%	100.0%

- E.** An affected utility may count toward meeting the energy efficiency standard up to one-third of the energy savings resulting from energy efficiency building codes and up to one-third of the energy saving resulting from energy efficiency appliance standards. The energy savings must be quantified and reported through a measurement and evaluation study undertaken by the affected utility and the affected utility may count the energy savings only when the utility demonstrates and documents its efforts in support of the adoption or implementation of the energy efficiency building codes and appliance standards.
- F.** An affected utility may count a customer's energy savings resulting from self-direction toward meeting the standard.
- G.** An affected utility may count toward meeting the energy efficiency standard all energy savings resulting from the affected utility's sponsorship of RET projects that displace gas. An affected utility may also count toward meeting the standard all energy savings resulting from other RET projects that are not sponsored by the affected utility, if the affected utility can clearly demonstrate that its efforts facilitated the placement and completion of the RET project.
- H.** An affected utility's energy savings resulting from efficiency improvements to its delivery system may not be counted toward meeting the standard.
- I.** An affected utility's energy savings used to meet the energy efficiency standard will be assumed to continue through the

Arizona Administrative Register / Secretary of State
Notices of Proposed Rulemaking

year 2020 or, if expiring before the year 2020, to be replaced with an energy efficiency or RET measure having at least the same level of efficiency.

Table 4. Illustrative Example of How the Energy Standard Could be Met in 2020

	<u>2020 Energy Efficiency Standard</u>	<u>2019 Retail Sales (therms)</u>	<u>Required Cumulative Annual Energy Savings (therms or therm equivalents)</u>
<u>Total</u>	6.00%	79,105,751	4,746,345
<u>Breakdown of Savings and Credits Used To Meet 2020 Standard:</u>			
			<u>Cumulative Annual Energy Savings Or Credit (therms)</u>
<u>Pre-rules Savings Credit</u> R14-2-2504(D)			359,545*
<u>Building Codes and Appliance Standards</u> R14-2-2504(E)			425,000
<u>Self-direction</u> R14-2-2404(F)			27,000
<u>RET</u> R14-2-2504(G)			25,000
<u>CHP</u> R14-2-2501(10) and R14-2-2504(C)			135,000
<u>Energy Efficiency</u> R14-2-2504(C)	At least 4.5 percentage points		3,774,800
<u>Total</u>			4,746,345

* The total pre-rules savings credit shall be capped at 1% of 2005 retail energy sales, and the total credit is allocated over five years from 2016 to 2020. The credit shown above represents an estimate of the portion of the total credit that can be taken in 2020, or 32.5% of the total credit allowed.

R14-2-2505. Implementation Plans

- A.** Except as provided in R14-2-2518 and R14-2-2519, on June 1 of each odd year, or annually at the election of each affected utility, each affected utility shall file with Docket Control, for Commission review and approval, an implementation plan describing how the affected utility intends to meet the energy efficiency standard for the next one or two calendar years, as applicable, except that the initial implementation plan shall be filed within 30 days of the effective date of this Article.
- B.** The implementation plan shall include the following information:
1. Except for the initial implementation plan, a description of the affected utility's compliance with the requirements of this Article for the previous calendar year;
 2. Except for the initial implementation plan, which shall describe only the next calendar year, a description of how the affected utility intends to comply with this Article for the next two calendar years, including an explanation of any modification to the rates of an existing DSM adjustment mechanism or tariff that the affected utility believes is necessary;
 3. Except for the initial implementation plan, which shall describe only the next calendar year, a description of each DSM and RET program to be newly implemented or continued in the next two calendar years and an estimate of the annual therm or therm equivalent savings projected to be obtained through each DSM and RET program;
 4. The estimated total cost and cost per therm reduction of each DSM and RET measure and DSM and RET program described in subsection (B)(3);
 5. A DSM tariff filing complying with R14-2-2506(A) or a request to modify and reset an adjustment mechanism complying with R14-2-2506(C), as applicable; and
 6. For each new DSM and RET program and measure that the affected utility desires to implement, a program proposal complying with R14-2-2507.
- C.** An affected utility shall notify its customers of its implementation plan filing through a notice in its next regularly scheduled customer bills following the filing of the implementation plan.
- D.** The Commission may hold a hearing to determine whether an affected utility's implementation plan satisfies the require-

Arizona Administrative Register / Secretary of State
Notices of Proposed Rulemaking

ments of this Article.

- E.** An affected utility's Commission-approved implementation plan, and the DSM and RET programs authorized thereunder, shall continue in effect until the Commission takes action on a new implementation plan for the affected utility.

R14-2-2506. DSM Tariffs

- A.** An affected utility's DSM tariff filing shall include the following:
1. A detailed description of each method proposed by the affected utility to recover the reasonable and prudent costs associated with implementing the affected utility's intended DSM and RET programs;
 2. Financial information and supporting data sufficient to allow the Commission to determine the affected utility's fair value, including, at a minimum, the information required to be submitted in a utility annual report filed under R14-2-312(G)(4);
 3. Data supporting the level of costs that the affected utility believes will be incurred in order to comply with this Article; and
 4. Any other information that the Commission believes is relevant to the Commission's consideration of the tariff filing.
- B.** The Commission shall approve, modify, or deny a tariff filed pursuant to subsection (A) within 180 days after the tariff has been filed. The Commission may suspend this deadline or adopt an alternative procedural schedule for good cause.
- C.** If an affected utility has an existing adjustment mechanism to recover the reasonable and prudent costs associated with implementing DSM and RET programs, the affected utility may, in lieu of making a tariff filing under subsection (A), file a request to modify and reset its adjustment mechanism by submitting the information required under subsections (A)(1) and (3).

R14-2-2507. Commission Review and Approval of DSM and RET Programs

- A.** An affected utility shall obtain Commission approval before implementing a new DSM or RET program.
- B.** An affected utility may apply for Commission approval of a DSM or RET program by submitting a program proposal either as part of its implementation plan submitted under R14-2-2505 or through a separate application.
- C.** A program proposal shall include the following:
1. A description of the DSM or RET program or measure that the affected utility desires to implement.
 2. The affected utility's objectives and rationale for the DSM or RET program or measure.
 3. A description of the market segment at which the DSM or RET program or measure is aimed.
 4. An estimated level of customer participation in the DSM or RET program or measure.
 5. An estimate of the baseline.
 6. The estimated societal benefits and savings from the DSM program or measure.
 7. The estimated societal costs of the DSM program or measure.
 8. The estimated environmental benefits to be derived from the DSM or RET program or measure.
 9. The estimated benefit-cost ratio of the DSM program or measure.
 10. The affected utility's marketing and delivery strategy.
 11. The affected utility's estimated annual costs and budget for the DSM or RET program or measure.
 12. The implementation schedule for the DSM or RET program or measure.
 13. A description of the affected utility's plan for monitoring and evaluating the DSM or RET program or measure, and
 14. Any other information that the Commission believes is relevant to the Commission's consideration of the filing.
- D.** In determining whether to approve a program proposal, the Commission shall consider:
1. The extent to which the Commission believes the DSM program or measure will meet the goal set forth in R14-2-2503(A), and
 2. All of the considerations set forth in R14-2-2503(B).
- E.** Staff may request modifications of on-going DSM and RET programs to ensure consistency with this Article. The Commission shall allow affected utilities adequate time to notify customers of DSM and RET program modifications.

R14-2-2508. Parity and Equity

- A.** An affected utility shall develop and propose DSM programs for residential, non-residential, and low-income customers.
- B.** An affected utility shall allocate DSM funds collected from residential customers and from non-residential customers proportionately to those customer classes to the extent practicable.
- C.** The affected utility costs of DSM and RET programs for low-income customers shall be borne by all customer classes, except where a customer or customer class is specifically exempted by Commission order.
- D.** DSM funds collected by an affected utility shall be used, to the extent practicable, to benefit that affected utility's customers.
- E.** All customer classes of an affected utility shall bear the costs of DSM and RET programs by payment through a non-bypassable mechanism, unless a customer or customer class is specifically exempted by Commission order.

R14-2-2509. Reporting Requirements

- A.** By April 1 of each year, an affected utility shall submit to the Commission, in a Commission-established docket for that year, a DSM progress report providing information for each of the affected utility's Commission-approved DSM and RET

Arizona Administrative Register / Secretary of State
Notices of Proposed Rulemaking

programs including at least the following:

1. An analysis of the affected utility's progress toward meeting the annual energy efficiency standard;
 2. A list of the affected utility's current Commission-approved DSM and RET programs, organized by customer segment;
 3. A description of the findings from any research projects completed during the previous year; and
 4. The following information for each Commission-approved DSM and RET program and measure:
 - a. A brief description;
 - b. Goals, objectives, and savings targets;
 - c. The level of customer participation during the previous year;
 - d. The costs incurred during the previous year, disaggregated by type of cost, such as administrative costs, rebates, and monitoring costs;
 - e. A description and the results of evaluation and monitoring activities during the previous year;
 - f. Savings realized in kW, kWh, therms, and therm equivalents, as appropriate;
 - g. The environmental benefits realized;
 - h. Incremental benefits and net benefits, in dollars;
 - i. Performance-incentive calculations for the previous year;
 - j. Problems encountered during the previous year and proposed solutions;
 - k. A description of any modifications proposed for the following year; and
 - l. Whether the affected utility proposes to terminate the DSM or RET program or measure and the proposed date of termination.
- B.** By October 1 of each year, an affected utility shall file a status report including a tabular summary showing the following for each current Commission-approved DSM and RET program and measure of the affected utility:
1. Semi-annual expenditures compared to annual budget, and
 2. Participation rates.
- C.** An affected utility shall file each report required by this Section with Docket Control, where it will be available to the public, and shall make each such report available to the public upon request.
- D.** An affected utility may request within its implementation plan that these reporting requirements supersede specific existing DSM reporting requirements.

R14-2-2510. Cost Recovery

- A.** An affected utility may recover the costs that it incurs in planning, designing, implementing, and evaluating a DSM or RET program or measure if the DSM or RET program or measure is all of the following:
1. Approved by the Commission before it is implemented;
 2. Implemented in accordance with a Commission-approved program proposal or implementation plan; and
 3. Monitored and evaluated, pursuant to R14-2-2515.
- B.** An affected utility shall monitor and evaluate each DSM and RET program or measure, as provided in R14-2-2515.
- C.** If an affected utility determines that a DSM program or measure is not cost-effective or that a DSM or RET program or measure does not meet expectations, the affected utility shall include in its annual DSM progress report filed under R14-2-2509 a proposal to modify or terminate the DSM or RET program or measure.
- D.** An affected utility shall recover its DSM and RET costs concurrently, on an annual basis, with the spending for DSM and RET programs and measures, unless the Commission orders otherwise.
- E.** An affected utility may recover costs from DSM funds for any of the following items, if the expenditures will enhance DSM or RET programs:
1. Incremental labor attributable to DSM and RET development.
 2. A market study.
 3. A research and development project such as applied technology assessment.
 4. Consortium membership, or
 5. Other items that are difficult to allocate to an individual DSM or RET program.
- F.** The Commission may impose a limit on the amount of DSM funds that may be used for the items in subsection (E).
- G.** If goods and services used by an affected utility for DSM or RET have value for other affected utility functions, programs, or services, the affected utility shall divide the costs for the goods and services and allocate funding proportionately.
- H.** An affected utility shall allocate DSM and RET costs in accordance with generally accepted accounting principles.
- I.** An affected utility, at its own initiative, may submit to the Commission twice-annual reports on the financial impacts of its Commission-approved DSM and RET programs, including any unrecovered fixed costs and net lost income/revenue resulting from its Commission-approved DSM and RET programs.

R14-2-2511. Revenue Decoupling

The Commission shall review and address financial or other disincentives, recovery of fixed costs, and recovery of net lost income/revenue, including, but not limited to, implementation of a revenue decoupling mechanism, due to Commission-

Arizona Administrative Register / Secretary of State
Notices of Proposed Rulemaking

approved DSM and RET programs, if an affected utility requests such review in its rate case and provides adequate documentation/records supporting its request in its rate application.

R14-2-2512. Cost-effectiveness

- A. An affected utility shall ensure that the incremental benefits to society of the affected utility's overall group of DSM programs exceed the incremental costs to society of the overall group of DSM programs.
- B. The Societal Test shall be used to determine cost-effectiveness.
- C. The analysis of a DSM program's or DSM measure's cost-effectiveness may include:
 - 1. Costs and benefits associated with reliability, improved system operations, environmental impacts, and customer service;
 - 2. Savings of both gas and electricity; and
 - 3. Any uncertainty about future streams of costs or benefits.
- D. An affected utility shall make a good faith effort to quantify water consumption savings and air emission reductions resulting from implementation of DSM programs, while other environmental costs or the value of environmental improvements shall be estimated in physical terms when practical but may be expressed qualitatively. An affected utility, Staff, or any party may propose monetized benefits and costs if supported by appropriate documentation or analyses.
- E. Market transformation programs shall be analyzed for cost-effectiveness by measuring market effects compared to program costs.
- F. Educational programs shall be analyzed for cost-effectiveness based on estimated energy and peak demand savings resulting from increased awareness about energy use and opportunities for saving energy.
- G. Research and development and pilot programs are not required to demonstrate cost-effectiveness.
- H. An affected utility's low-income customer program portfolio shall be cost-effective, but costs attributable to necessary health and safety measures shall not be used in the calculation.

R14-2-2513. Baseline Estimation

- A. To determine the baseline, an affected utility shall estimate the level of gas demand and consumption and the associated costs that would have occurred in the absence of a DSM program.
- B. For installations or applications that have multiple fuel choices, an affected utility shall determine the baseline using the same fuel source that would have actually been used for the installation or application in the absence of a DSM program.

R14-2-2514. Fuel Neutrality

- A. Ratepayer-funded DSM shall be developed and implemented in a fuel-neutral manner.
- B. An affected utility shall use DSM funds collected from gas customers for gas DSM programs, unless otherwise ordered by the Commission.
- C. An affected utility may use DSM funds collected from gas customers for thermal envelope improvements.

R14-2-2515. Monitoring, Evaluation, and Research

- A. An affected utility shall monitor and evaluate each DSM and RET program and measure to:
 - 1. Ensure compliance with the cost-effectiveness requirements for DSM programs in R14-2-2512;
 - 2. Determine participation rates, energy savings, and demand reductions;
 - 3. Assess the implementation process for the DSM or RET program or measure;
 - 4. Obtain information on whether to continue, modify, or terminate a DSM or RET program or measure; and
 - 5. Determine the persistence and reliability of the affected utility's DSM and RET programs and measures.
- B. An affected utility may conduct evaluation and research, such as market studies, market research, and other technical research, for DSM and RET program planning, product development, and DSM and RET program improvement.

R14-2-2516. Program Administration and Implementation

- A. An affected utility may use an energy service company or other external resource to implement a DSM or RET program or measure.
- B. The Commission may, at its discretion, establish independent program administrators who would be subject to the relevant requirements of this Article.

R14-2-2517. Leveraging and Cooperation

- A. An affected utility shall, to the extent practicable, participate in cost sharing, leveraging, or other lawful arrangements with customers, vendors, manufacturers, government agencies, other gas utilities, or other entities if doing so will increase the effectiveness of a DSM or RET program or measure.
- B. An affected utility shall participate in a DSM or RET program or measure with an electric utility when doing so is practicable and if doing so will increase the effectiveness of the program or measure.

R14-2-2518. Compliance by Gas Distribution Cooperatives

- A. A gas distribution cooperative that is an affected utility shall comply with the requirements of this Section instead of meeting the requirements of R14-2-2504(A) and (B) and R14-2-2505(A).

Notices of Proposed Rulemaking

- B.** A gas distribution cooperative shall, on June 1 of each odd year, or annually at its election:
1. File with Docket Control, for Commission review and approval, an implementation plan for each DSM and RET program to be implemented or maintained during the next one or two calendar years, as applicable; and
 2. Submit to the Director of the Commission's Utilities Division an electronic copy of its implementation plan in a format suitable for posting on the Commission's web site.
- C.** A gas distribution cooperative's initial implementation plan shall be filed with Docket Control within 30 days of the effective date of this Article.
- D.** An implementation plan submitted under subsection (B) or (C) shall set forth an energy efficiency goal for each year of at least 75% of the savings requirement specified in R14-2-2504 and shall include the information required under R14-2-2505(B).

R14-2-2519. Compliance by Propane Companies

- A.** A propane company that is an affected utility shall comply with the requirements of this Section instead of meeting the requirements of R14-2-2504(A) and (B) and R14-2-2505(A).
- B.** A propane company shall, on June 1 of each odd year, or annually at its election:
1. File with Docket Control, for Commission review and approval, an implementation plan for each DSM and RET program to be implemented or maintained during the next one or two calendar years, as applicable; and
 2. Submit to the Director of the Commission's Utilities Division an electronic copy of its implementation plan in a format suitable for posting on the Commission's web site.
- C.** A propane company's initial implementation plan shall be filed with Docket Control within 30 days of the effective date of this Article.
- D.** An implementation plan submitted under subsection (B) or (C) shall set forth an energy efficiency goal for each year of at least 50% of the savings requirement specified in R14-2-2504 and shall include the information required under R14-2-2505(B).

R14-2-2520. Waiver from the Provisions of this Article

- A.** The Commission may waive compliance with any provision of this Article for good cause.
- B.** An affected utility may petition the Commission to waive its compliance with any provision of this Article for good cause.